

## UTILITY RATES

The City owns and operates three utilities: water, wastewater, and storm water/ flood control. Each utility assesses a variety of rates, fees, and charges to ensure that revenues are sufficient to meet operating and maintenance costs and to maintain the financial integrity of the utility. The Public Works Department annually reviews the financial and operation performance of each utility and, as appropriate, makes recommendations to City Council regarding adjustments to user charges and other related fees. The recommendations are reviewed and approved by City Council as part of the annual budget process.

The recommended rate and financial plan is designed to maintain required reserves and meet debt service coverage requirements. Currently, the City strives to maintain a 20%-25% operating reserve for each utility over a six-year planning period. Since Boulder uses a water rate structure that is conservation oriented, revenues can be significantly lower during a wet weather year. It is financially prudent to have reserves available for years where there may be a revenue shortfall. The reserve level is also related to the capital-intensive nature of the Utilities operations. It is industry-standard to have three months of operating expenditures in reserves. An emergency or unanticipated capital failure can be costly, and a higher level of operating reserves can more readily fund these situations should they arise. Finally, a higher level of operating reserve is considered favorably by the bond rating agencies when rating any utility bonds the City may issue.

Debt service coverage requirements are established as part of the utility's indenture or bond covenants. On an annual basis each utility is required to generate net revenues (total revenues minus operating expenditures) before debt service, equal to 1.25 times its annual debt service requirements.

To meet these financial requirements and to fund necessary operation and maintenance costs, rate adjustments for 2002 were recommended and approved for all three utilities. The existing monthly user charges do not generate revenues sufficient to maintain the financial goals relating to reserves and debt service coverage while funding operations and capital projects. In 2002 and 2003 additional revenue is needed to fund debt service associated with several major capital projects. They are: reconstruction of the Lakewood Raw Water Pipeline (this is the second of a two-year increase to fund the project), construction of a Class A Biosolids Composting Facility, construction of a Biosolids Handling and Dewatering Facility, Wastewater Treatment Plant Improvements as mandated by the discharge permitting process, South Boulder Creek floodplain improvements, and Four Mile Creek floodplain improvements. In order to fund these projects and maintain financial thresholds, the following percentage increases in revenues are recommended (2001 percentage increases are currently in effect):

<u>Year</u>	<u>Water</u>	<u>Wastewater</u>	<u>Flood Control</u>
2001	10.00%	6.00%	4.00%
<b>2002</b>	<b>9.00%</b>	<b>12.00%</b>	<b>8.00%</b>
2003	3.00%	12.00%	8.00%
2004	3.00%	6.00%	4.00%
2005	3.00%	4.00%	4.00%

## Programs and Projects with Potential Rate Impacts

While the development of the Utilities budget has been undertaken in a comprehensive manner, there are several projects whose development has not progressed to a point of providing definitive financial impacts. Some of the larger projects have been preliminarily estimated and are included in the 2002-2007 Capital Improvements Program. It is important to note that the costs are estimates and could change, as the projects are more defined. These projects include:

### Water Utility

-At this time there are no projects whose financial cost is so uncertain as to have a significant impact on the projected revenue increases for water. The 9% increase for 2002 is the second of a two-year increase to fund the Lakewood Pipeline project.

### Wastewater Utility

- Class A Biosolids Composting Facility (estimate included in 2003 CIP)
- Biosolids Handling and Dewatering Facility (estimate included in 2003 CIP)
- Wastewater Treatment Plant Improvements related to the discharge permit renewal (estimate included in 2003 CIP)

### Flood Control Utility

- Improvements related to Four Mile Canyon Creek (estimate included in the 2002 CIP)
- Improvements related to South Boulder Creek (estimate included in 2003 CIP)

The 2002 annual utility bill for a typical residential customer (annual consumption of 120,000 gallons) will be approximately \$568.49. This is an increase of \$49.92 from a comparable 2001 bill or approximately \$4.20 per month. The following table is a comparison of annual bills under existing and recommended rates for the City's three utilities.

<b>TYPICAL RESIDENTIAL CUSTOMER COMPARISON OF CURRENT AND PROPOSED ANNUAL UTILITY BILL</b>			
<b><u>Utility</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>Difference</u></b>
Water	\$327.65	\$358.49	\$30.84
Wastewater	126.72	141.60	14.88
Flood Control	64.20	68.40	4.20
TOTAL	\$518.57	\$568.49	\$49.92

Changes to the Utility Plant Investment Fees (PIFs) are also being implemented in 2002. PIFs are a one-time fee collected when a property is annexed, developed, or redeveloped and requires access (capacity) into the existing water, wastewater, or flood control system. PIFs were last revised in January of 1996. The recommended fees are based on the current value of the utility assets which were recalculated as part of the 2001 Utility Rate and Plant Investment Fee Review conducted by Integrated Utilities Group, Inc.

The current and recommended PIFs for an average-size, detached, single family residence are:

	2001 <u>PIF</u>	2002 <u>PIF</u>
Water	\$4,855	<b>\$8,438</b>
Wastewater	\$1,140	<b>\$1,615</b>
Flood Control	\$1,095	<b>\$1,582</b>

PIF assessments for other types of customers (i.e. small, large, and permanently affordable units) are also being revised using the base amounts listed above and are reflected in the updated Section 4-20 Fines and Fees of the Boulder Revised Code.

The Utilities also assess fees for specific Utility related services. These are reviewed annually as part of the budget process and any changes are submitted as part of the update to section 4-20 Fines and Fees of the B.R.C. Currently these fees are designed to fully recover the direct costs of providing services and most indirect overhead costs.

Public process and information disbursement regarding the utility rate and PIF adjustments included: submittal to and recommendation from the Water Resources Advisory Board, notification on customers utility bill, notification in the Planning & Development Services newsletter (P&DS), availability of handouts at the P&DS Services Center, inclusion of related materials on the Public Works home page and Boulder FYI, and public hearings during Council consideration of the annual budget.

All approved adjustments to the Utility rates will become effective January 1, 2002. In January, an insert is included in customer's utility bills detailing the rate changes for monthly users.